



# An Anatomy of a Collapse: Enron (ENE)

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We hate to rub salt in an open wound but I've gotten tons of requests in the last couple of days to do an anatomy of a collapse example using Enron (ENE). For those you new to our service, an "anatomy of a collapse" is where we take a stock that has absolutely collapsed in price and show how if you had been using the technicals instead of just the fundamentals you have taken some type of defensive action instead of watching the stock go down the drain as the fundamental analysts continued to rate the stock a buy.

We're not trying to make fun of the fundamental analyst here. In a New York Times article from December 31st 2000 entitled "How Did So Many Get It Wrong?" Anthony Noto, an internet analyst for Goldman Sachs, says, "our research is driven by fundamental analysis and is not influenced by anything else." He went on to explain that the companies he follows had their stock prices drop last spring not because their operations were failing, but because market psychology had changed. He downgraded the stocks much later because only then had it become clear through his research that the companies' results were deteriorating. In hindsight, he said, "we should have lowered our ratings sooner. We regret that."

Mr. Noto makes a very important point here and that is as a fundamental analyst, he can't change his rating until the company's operations change. In the case of ENE, it might be argued that the fundamental analysts were relying on information that the accounting firms said was correct but in fact really wasn't correct. The bottom line to you and your customers is that we have to live in the world of reality and that is dealing with the stock price. No matter how fundamentally sound a company might be, if the stock price is falling that's doing us no good. Sure we can be like Mr. Noto and "regret that" but it doesn't change the fact that our account lost money and no one's going to make that up.

We've used the example many times that to get the best investments, like playing the best music, you have to have both hands on the piano. To sit a musician down at the piano and tell you to play you a song but before he begins you tie one hand behind his back the music that he makes will be marginal at best. If you let him play the piano with both hands, he'll be able to make very beautiful music. Investing is the same way. To use just the fundamentals is like playing the piano with one hand. You increase your odds of success dramatically if you untie that other hand, the technical side of the equation. From a Barron's article entitled "Street Fighting: One Manager's Strategies For Beating the Pros" from June 22nd 1998, Peter Siris, an all-star fundamental analyst, was quoted as saying the following, "well, I used to completely disregard charts because I'm a fundamental investor. But over the years as I look back over the stocks I've owned that have done well -- as well as the mistakes I've made -- I've realized that the charts very often would have shown me great opportunities to buy and sell, if I had looked at them dispassionately. What's more, when I've ignored what the charts had to tell, I've usually been wrong. As a fundamental investor, I've come to understand that what the charts are saying sometimes is that other people know more than I do about a stock; its movement isn't just a question of momentum. If you look at charts of stocks like an Oxford Health Plans -- or almost any of the others that have cratered 50% in a day -- in almost all cases, in the three or four weeks before they got killed, you could see them topping out and

starting down. The charts, essentially, are the early-warning systems of what the professionals are doing, telling you the direction in which they're getting ready to make a major move." So here's a fundamental analyst saying that the people really in the know about the company will begin to cast their vote before those problems show up on the financial statements. The casting of those votes by the insiders is reflected in the chart.

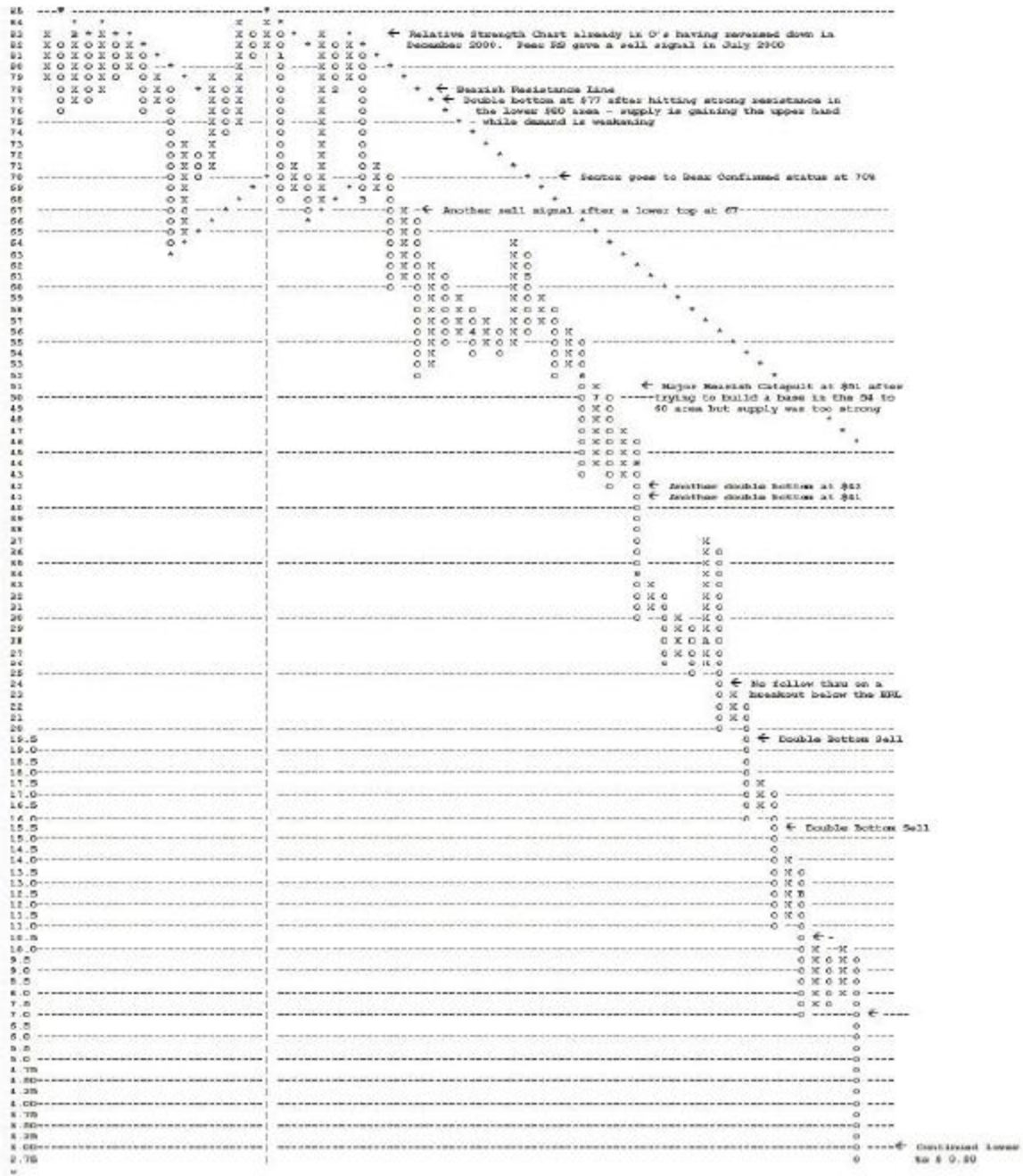
So let's get to the chart of ENE along with the fundamental comments along the way. Another thing you might want to do is print out the PDF chart as that will really give you a really nice long term view of the price action in the stock and anyone can see the downtrend that this stock has been in since breaking down in the mid 70's. As you can see, the stock gave you multiple warning signs that something was wrong and some type of defensive action should have been taken. Marrying the fundamentals and the technicals gives you better odds of success. There are thousands of fish in the sea, keep only those with the best of both worlds.

*Fundamental & Technical Comments on Enron (ENE) (Fundamental Source: Bloomberg)*

March 12, 2001	\$61.27	Price Target Cut at Prudential Securities Reiterated "Strong Buy" at Lehman
March 14, 2001	\$62.75	Raised to "Accumulate" at Commerzbank
March 21, 2001	\$55.89	Reiterated Near-term "Buy" at Merrill
March 22, 2001	\$55.02	Reiterated "Accumulate" at Commerzbank Capital
March 29, 2001	\$55.31	Reiterated "Recommend List" at Goldman Sachs
April 16, 2001	\$59.44	Reiterated "Recommend List" at Goldman Sachs
April 17, 2001	\$60.00	Reiterated Near-Term "Buy" at Merrill
April 18, 2001	\$61.62	Reiterated "Recommend List" at Goldman Sachs Reiterated "Accumulate" at Commerzbank Capital
May 2001	\$62.41	Bloomberg Markets: "Inside Enron: CEO Jeffrey Skilling Reinvents His Company – Again"
May 21, 2001	\$54.99	Price Target Cut at Prudential
June 8, 2001	\$51.13	Reiterated "Attractive" at Bear Stearns
June 15, 2001	\$47.26	Reiterated "Buy" at JP Morgan
June 20, 2001	\$45.80	Reiterated "Recommend List" at Goldman Sachs
June 22, 2001	\$44.88	Raised to "Accumulate" at A.G. Edwards
June 27, 2001	\$46.72	Estimate Raised at Goldman Sachs
July 10, 2001	\$49.22	Reiterated "Buy" at JP Morgan
July 13, 2001	\$48.78	Estimates Raised at First Albany Reiterated "Strong Buy" at Banc of America
August 15, 2001	\$40.25	Reiterated "Recommend List" at Goldman Sachs Reiterated "Attractive" at Bear Stearns Cut to Near-Term "Neutral" at Merrill
Sept 6, 2001	\$30.49	Enron Raised to "Buy" at Sanders Morris Harris

Sept 26, 2001	\$25.15	Upgraded from Accumulate to Buy at AG Edwards; Price Target \$45
Oct 3, 2001	\$33.49	Reiterated "Recommend List" at Goldman Sachs
Oct 4, 2001	\$33.10	Downgraded to "Buy" from "Strong Buy" at AG Edwards; Price Target \$40
Oct 5, 2001	\$31.73	Reiterated "Strong Buy" at First Albany
Oct 9, 2001	\$33.39	Raised to Long-term "Buy" at Merrill Lynch
Oct 16, 2001	\$32.84	Raised to Near-term "Accumulate" at Merrill Lynch
Oct 17, 2001	\$32.20	Reiterated "Strong Buy" at First Albany
Oct 19, 2001	\$26.05	Cut to "Hold" at AG Edwards
Oct 22, 2001	\$20.65	"ENE trading below NAV (25-27)" Reiterated "Buy" at CIBC Downgraded from "Buy" to "Hold" at Prudential
Oct 23, 2001	\$19.79	Cut to "Reduce" at Edward Jones Cut to "Sell" at Prudential
Oct 24, 2001	\$16.41	Cut to Long-Term "Buy" at JP Morgan Reiterated "Strong Buy" at Lehman; "the stock is attractively priced" Cut to "Buy" at First Albany
Oct 25, 2001	\$16.35	Cut to "Market Perform" at Banc of America Reiterated "Buy" at Salomon Smith Barney but Target Cut From 55 to 30 S&P Changes Enron Outlook to Negative
Nov 1, 2001	\$11.99	Cut to Near-Term "Neutral" at Merrill Reiterated "Buy" at CIBC "but we see no reason to buy the stock"
Nov 7, 2001	\$ 9.05	Cut to "Sell" at AG Edwards
Nov 9, 2001	\$ 8.63	Cut to "Hold" at Commerzbank
Nov 12, 2001	\$ 9.24	Raised to "Hold" at Prudential
Nov 13, 2001	\$ 9.98	Raised to "Maintain Position" at Edward Jones
Nov 21, 2001	\$ 5.01	Cut to "Market Perform" at Goldman Sachs Cut to "Hold" at CIBC Cut to "Sell" at Edward Jones
Nov 28, 2001	\$ .61	Estimates Reduced at Prudential Cut to "Hold" at UBS Warburg Cut to "Sell" at Commerzbank Capital
Nov 29, 2001	\$ .36	Cut to "Hold" at Credit Suisse First Boston Cut to "Underperform" at RBC Capital Markets

### Enron (ENE) Point & Figure Chart



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